Don’t Buy Cineplex Stock: Buy This Growth Stock Instead

Description

Rising coronavirus cases this month are raising concerns. A bumpy road lies ahead for economic re-openings. In the near term, there will be increased volatility in stocks like **Cineplex** (TSX:CGX) that rely on smooth economic re-openings. It’s better to avoid these stocks at this time. Instead, invest in companies like **Netflix** (NASDAQ:NFLX) that should do well no matter which way the coronavirus cases go.

Cineplex stock: Why you should avoid it today

Before the coronavirus pandemic, Cineplex was able to offset the decline in the number of moviegoers by increasing concession prices. It experienced a big impact from the pandemic during economic lockdowns and temporary shutdowns of its businesses. As a result, it experienced a large cut in revenues, leading to cash burns every month.

Its last-12-month (LTM) revenues dropped nearly 89% year over year to $176.9 million. Its first-quarter (Q1) revenue wasn’t much better either, down 85% year over year. During Q1, the company still swallowed a net cash burn of $26.9 million on average every month.

This has left the company with an extremely poor balance sheet. Cineplex ended Q1 with a debt-to-asset ratio of more than 100%. This means if the company were to liquidate tomorrow, shareholders will be left with nothing.

Importantly, Cineplex stock has already turned around, appreciating as much as roughly 200% from a low of below $5 per share in late October 2020. At $13 and change per share, there isn’t enough of a margin of safety for even a bet. If it were to fall low enough, it could be a speculative turnaround investment for those who understand and are willing to take the risk.

The pandemic has been going on since at least late 2019. This is not a short time. It might have changed consumer behaviours. Nowadays, many Canadians enjoy streaming content from the comfort of their homes through services like **Disney**+ and Netflix, while keeping socially distant.

Why buy this growth stock today?

Netflix remains a great growth stock to buy and hold today. Last year, it increased revenues by 24% to almost US$25 billion, while boosting its earnings per share by an incredible rate of 47%. Its EBITDA, a cash flow proxy, also rose by 74% with support from expanding the EBITDA margin from 13.4% in 2019 to 18.8% in 2020. Optimistically, Netflix's EBITDA margin continued to expand in the first half of 2021.

As an international business, Netflix generates a geographically diversified revenue stream, earning more than half of its revenues from outside the United States and Canada. For example, based on its 2020 revenue diversification, it generates about 31% of revenues from Europe, the Middle East, and Africa.

The streaming service company is investing in multiple areas, including video gaming and an online shop, to enhance the subscriber experience. The goal is to make Netflix into a must-have subscriber service versus one that's nice to have.

At US$518 and change per share at writing, Netflix is fairly valued for its growth potential. Additionally, its debt-to-asset ratio of 66% is much more palatable than Cineplex's.

The Foolish investor takeaway

If we were to experience a recession anytime soon, Netflix's online business model and balance sheet strength would have a much better chance of thriving than Cineplex's.

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1. Coronavirus
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